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Docket No. 07-GIMX-247-GIV
Energy Efficiency Programs
Summary of Staff Report and Recommendation

Legal Issues:

- The KCC has the authority to approve and *require* energy efficiency programs.
- The KCC has the authority to provide incentives to utilities in addition to an increased rate of return, including implementation of a decoupling mechanism
- There is a legitimate question whether legislation is necessary to mandate a third-party administrator – the Commission should further consider if that structure is more efficient or needed to avoid dis-incentives.
- No particular benefit-cost test is legally required.
- Energy efficiency programs are not inherently unduly discriminatory; cost recovery is a rate design function with considerable Commission discretion.

Recommendations:

- The KCC should require or encourage utilities to evaluate and offer energy efficiency programs to comply with obligations to provide efficient services.
- Staff suggests the KCC require utilities to take the following interim steps (applicable to the large electric and natural gas utilities; until the KCC determines more comprehensive policies and recommendations, it may be unduly burdensome for the smaller utilities to undertake interim efforts):
 - Conduct an evaluation of energy efficiency potential (beginning with cooperation with KEC's evaluation).
 - Implement energy efficiency programs that appear to be cost-effective.
 - Focus on programs that target customers who may not have the ability or incentives to install efficiency measures on their own (low income, landlord-tenant situations).
 - For cost recovery, the KCC should provide a mechanism representing the middle ground between traditional rate making and treating costs as rate base investments. Allow immediate collection of costs through an energy efficiency rider that is clearly indicated on customer bills.

- Further explore how they could cooperate and coordinate with third-party administrators and submit a report to the KCC on their conclusions.
- Staff suggests that further proceedings should be conducted on the following issues but the Commission should consider coordination with the KEC:
 - What should be the level of spending on energy efficiency?
 - Should the level of spending be tied to engineering efficiency potential, Benefit-Cost Tests, economic efficiency, Integrated Resource Planning, a percentage of revenues, or some other factor(s)?
 - Should the energy efficiency programs be designed and viewed as alternative resource acquisition or market transformation efforts or what mix of such programs is appropriate? (The DOE study describes resource acquisition programs as the provision of incentives to consumers to purchase energy-efficient equipment and market transformation programs as using outreach and education to create informed consumers that may select energy-efficient technologies.)
 - What cost recovery mechanisms are most appropriate and should they vary for different types of utilities or types of programs?
 - How should DSM services be priced by the utility and should that pricing be consistent with the pricing (i.e., rate setting) of other utility services?
 - What incentive mechanisms, including decoupling, are necessary and reasonable and should they vary for different types of utilities?
 - What are the best practices for evaluating the effectiveness of energy efficiency programs and should they vary for different types of utilities?
 - Should net or gross savings targets or other performance requirements be established either in conjunction with incentive mechanisms or separately?
 - Should planning and/or administration of energy efficiency be conducted regionally or by a third party?
 - What changes in rate design and pricing structure are desirable and reasonable for promotion of energy efficiency?

Programs Suggested by Respondents in Energy Efficiency Docket

1. Rate Reform
 - a. Revenue Decoupling
2. Energy Efficiency Education
 - a. Comprehensive, web-based interactive energy efficiency information programs
3. Energy Efficient Buildings and Equipment
 - a. PAYS type program
 - b. FCIP-type programs
 - c. Energy Audits
 - d. Assistance with new construction
 - e. Incentives for the installation of high efficiency central air conditioners
 - f. Equipment rebates
 - g. Energy Star programs for new and existing homes
 - h. Weatherization
 - i. Efficient lighting program
 - j. Water heater wrap program
4. Load Response (measure where consumer changes its usage in response to price signals or other conditions)
 - a. Time-of-use tariffs
 - b. Advanced metering
 - c. Competitive metering (consumers can purchase meters from competitive non-utility providers to best meet their needs)
5. Load Control Measures
 - a. High efficiency heat pump with mandatory direct load control
 - b. High efficiency water heating heat pump program with mandatory direct load control
 - c. Direct load control programs for central A/C, electric water heating, and swimming pool pumps
6. White Tag Portfolio Standards/Trading Programs (credits created and owned by consumers through reductions in energy use; consumers can trade credits in a similar manner as renewable energy credits)
7. Fuel Switching (as a strategy to achieve conservation objectives)
8. Commercial/Industrial specific programs (in addition to programs listed above)
 - a. Audit rebates
 - b. Building operator certifications
 - c. Peak load reduction programs
 - d. Prescriptive and custom rebates